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¶1. (SBU) Summary: Serving the heart of China's export market, container terminal operators and carriers in Guangdong Province did not escape the damaging effects of the latest global economic downturn. Volumes dropped precipitously in the first half of 2009 and showed only modest signs of recovery in the second half. Pressure to maintain growth despite the downturn has prompted Guangdong's port cities to provide incentives to shipping lines in an effort to bring more traffic to the region. However, these enticements are poorly targeted to effectively attract international carriers, according to industry experts in south China. Guangdong's container shipping industry hopes to have a better year in 2010, but the optimism expressed by terminal and shipping operators alike is measured and provisional. End summary.

Guangdong's Container Shipping Business Takes a Dive
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¶2. (SBU) In terms of container shipping traffic, Guangdong Province was the worst-hit region in all of China as a result of the global economic crisis, according to local industry experts. Container terminals operating in Shenzhen and Dongguan saw a significant drop in volume, particularly between March and June 2009 when volumes plummeted 30% to 40% year-on-year. There was some improvement beginning in late summer, said managers at Chiwan Container Terminal, Co. and PSA Dongguan Container Terminal, and the holiday season leading into the New Year has helped bring the industry out of the trough, but it was nowhere close to being back on track. Overall, they estimated volume for 2009 would be 20% lower than ¶2008. Container terminals also felt a great deal of downward pressure on fees charged to the shipping lines as carriers cut their rates with shippers in 2009, but the terminal operators maintained that terminal fees were kept at a sustainable level.

¶3. (SBU) Shipping lines operating in south China have been hit particularly hard. Maersk, one of the largest foreign-invested shipping companies in the region, estimated a loss of US$500 million globally in the first half of 2009, according to a senior executive. The company is looking at reducing its south China operations as a

result. Representatives of smaller carriers attending the 2009 Trans-Pacific Maritime Asia Conference in Shenzhen (ref E) also privately reported losses to ConGenOff, though specific figures were not provided.

¶4. (SBU) The economic slowdown has affected the development and expansion of newer container terminals. Da Chan Bay (DCB) Terminal One CEO Andrew Milliken told ConGenOff that his company's expansion would have been much quicker if not for the global recession. The company, which has several foreign investors, had planned to put into operation additional berths in 2009, but has pushed back the commission dates. Similarly, the Shenzhen government's plan to further develop terminal facilities at Da Chan Bay this year have been postponed to 2011, given current trends, said Milliken.

Local Government Incentives

¶5. (SBU) In light of the slowdown in container shipping, port cities in Guangdong have been offering incentives to shipping lines in an attempt to increase traffic in their ports. The competition among cities like Guangzhou, Shenzhen, Dongguan and Zhuhai is quite fierce, said one container terminal executive in Dongguan. According to him, Dongguan city gives each carrier passing through Dongguan on an international trade route RMB30,000 to RMB90,000 (about US$4,400 to US$13,000) per port call. The Shenzhen government offers a similar reward and also awards a one-time bonus of RMB1 million (about US$150,000) for each new international service coming to Shenzhen. Additionally, further bonuses are available if a shipping line establishes a regional office in Shenzhen. The government also gives a bonus of RMB5 for each

twenty-foot equivalent container passing through a Shenzhen port, according to another executive in a separate meeting. He also said that the Shenzhen government had been supportive of his terminal by introducing customers to his company from time to time.

¶6. (SBU) However, the executive argued that these government strategies were not well targeted because the incentives were too low to effectively attract new business to the region. He speculated that the local governments simply wanted to have the biggest ports and to be able to compete on the national level with cities like Shanghai. Other container terminal operators suggested that instead of bonuses, local governments should focus on factors that really drive business such as improving the local business environment and infrastructure.

South China Terminals In Danger of Overcapacity?
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¶7. (SBU) Container terminal operators haven't faced the same dramatic fluctuations in their business environment that carriers have seen over the last five years, according to Wu Zhimin, deputy manager of Chiwan Container Terminal, which has a 15-year history in Shenzhen. However, he noted that overall supply of terminals in south China had grown and there weare signs of overcapacity. With new terminals in western Shenzhen, Humen, Zhuhai, Nansha, and Dongguan all taking a piece of the market, he believes that the good days are gone for south China terminals. According to Charles de Trenck of Transport Trackers, a Hong Kong-based research firm, Shenzhen's largest port, Yantian, has been losing market share to ports in west Shenzhen as new terminals there offer cheaper services for the European route. Milliken of DBC Terminal One, which opened on Shenzhen's west side in 2007, however, contended that there was no overcapacity as the market is large enough to accommodate the current number of terminals, a point he said would be evident once the global economy recovers.

Intra-Asia Traffic Positive

¶8. (SBU) While losses appear universal for international services in 2009, particularly the trans-Pacific and European routes, the intra-Asia market has been performing well, according to industry experts. At Chiwan Container Terminal and its sister company,

Shekou Container Terminals, the total number of intra-Asia services exceeded that of trans-Pacific and Europe combined, said Wu. Executives at Maersk and DCB Terminal One also acknowledged this trend, saying that the intra-Asian market looked quite good.

Nowhere To Go But Up

¶9. (SBU) Believing that the worst of the global economic recession has passed, container shipping businesses in south China are forecasting growth for 2010, with a few caveats. Maersk, estimating a 2% growth, does not expect to "bounce back" in 2010, but hopes that it will come close to breakeven, said one of its senior executives, who added that the company will need more than growth to come back. He was optimistic that the European route would break even, but said that the Pacific route would likely show no growth next year.

¶10. (SBU) Working under the assumption that foreign trade would remain south China's focus, Wu of Chiwan said that Guangdong continued to be a booming area. He projects that container volume will be up 10% in 2010 compared to 2009. Milliken of DCB Terminal One said that his customers were quite convinced that the market would not be as depressed as it was a year ago and there would be growth in 2010, albeit slow. He anticipates that the first half of 2010 will still be very tough with only 3% to 4% growth compared to ¶2009. However, if the U.S. and European economies continue to show signs of recovery, he surmised that there would be significant growth in the second half of 2010 for all ports in Shenzhen.

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